

Edward Greatrex
Business Environment Directorate
Department of Business, Innovation and Skills
Level 3, 1 Victoria Street
London
SW1H 0ET

corporate.responsibility@bis.gsi.gov.uk

30 September 2013

Dear Sirs,

Department for Business, Innovation & Skills – Corporate Responsibility: A Call for Views

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of **EuropeanIssuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance Expert Group has examined your proposals and advised on this response and we enclose that in the format you have requested. A list of members of the expert group is set out in the Appendix.

Response

We welcome the opportunity to respond to this consultation. As a general observation, we believe that some of the underlying assumptions regarding small and mid-size companies and corporate responsibility are flawed. In particular we note that:

1. SMEs are necessarily deeply embedded within their communities;
2. Responsible corporate behaviour is not an option for SMEs, but part of what defines growth companies which are not yet sufficiently significant to be able to ignore public and community perception; and
3. SMEs might not have the time, skill or resource to report about what they do regarding corporate responsibility sufficiently.

As noted in our responses to the individual questions, we believe that there is much Government can do to support SMEs in the delivery of corporate responsibility programmes.

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Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TW', with a stylized flourish extending to the right.

Tim Ward
Chief Executive



Department for Business, Innovation & Skills

Corporate Responsibility: Call for Views

Response Form

Closing date **27/09/2013**.

email: corporate.responsibility@bis.gsi.gov.uk

or by post to:

Edward Greatrex

Business Environment Directorate

Department of Business, Innovation and Skills

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London

SW1H 0ET

Name:

Tim Ward, Chief Executive

Organisation:

Quoted Companies Alliance

Address:

6 Kinghorn Street, London,
EC1A 7HW

	Large business (over 250 staff)
	Medium business (50 to 250 staff)
	Small business (10 to 49 staff)
	Micro business (up to 9 staff)
x	Business representative organisation/trade body
	Charity or social enterprise
	Trade union or staff association
	Individual
	Central government
	Local Government
	Other (please describe)

Question 1: What more could Government do to encourage a greater number of companies to adopt internationally recognised principles and guidelines in their own corporate responsibility policies? How might Government, in a light touch way, measure this take-up?

Any decision by a company to adopt a positive corporate responsibility policy stems from that company's corporate governance.

An organisation needs to begin a corporate responsibility policy by making a clear decision as to how it will behave as a responsible corporate citizen, what it will prioritise to achieve this and how such achievement will be measured and benchmarked. Whilst always operating within the boundaries of law and regulation, one organisation might determine that its priority as a responsible corporate citizen is to deliver outreach and development programmes to the communities (both in the UK and overseas) in which it operates, whilst another might determine that its priority is to develop sustainable and low carbon energy systems within its organisation and within its supply chain. Each is valid. It is impossible and inappropriate to seek to determine which is "better". However it is important for the Government to support all types of excellence and leadership shown by business.

Government should use the review facilities at Companies House to produce some empirical statistical data based on responsibility policies referred to in filed annual reports and demonstrate thought leadership which highlights and promotes good practice.

Because good practice goes beyond legal compliance, there is a limited amount the Government can do, but clear Government support could be delivered through the following:

1. Giving clear direction

Corporate responsibility is a developing area in which there are many (both complimentary and conflicting) principles, guidelines and standards. Government has a clear role is filtering through these to assist in the development of appropriate standards for various business sectors and to demonstrate the merit of each. If set a challenge, business will respond to it and Government has a clear leadership role in determining both which principles should be followed and where the bar should be set.

2. Removing discriminatory taxation and creating taxation incentives

Government can precipitate greater and quicker corporate responsibility action by corporates through the delivery of clear taxation incentives. Note that there may be circumstances in which the cost of corporate responsibility activities are not deductible from a company's profit for taxation purposes because such activities neither represent either a charitable purpose, nor are for the purposes of the company's business. This anomaly where good behaviour may prove costly must be removed.

Government can go further and deliver additional tax incentives, for example by way of a pound for pound tax rebate for expenditure incurred in delivering corporate responsibility programmes. This would make such programmes more attractive to corporates.

3. Accreditation/awards

Programmes such as the Hermes/ICSA Excellence in Governance will demonstrate how recognition of

companies which raise the standard will itself drives further behavioural change. BIS should consider an accreditation and awards programme to highlight those companies demonstrating clear leadership in the corporate responsibility area, delivering back to those companies positive media coverage, recognition and the support of the Government (which the Government can give at minimal cash cost).

Government sponsorship of appropriate programmes would deliver a clear and powerful message that it wishes to foster an environment of corporate responsibility.

Question 2: Should Government encourage more sector-specific initiatives and, if so, how might it do that? Do different sectors need different levels of Government support and involvement?

It is very important to pursue a sector-specific approach which promotes standards which are appropriate for each sector. However, it must be recognised that to do so touches upon political sensitivities.

For example, many have a view that the activities of armaments manufacturers, tobacco companies, oil exploration companies and others are, by their very nature, inherently irresponsible. However, it is important in promoting good behaviours, to recognise that corporate responsibility is focused on how a corporate behaves in delivering its business, rather than a value judgement on what that business is.

Certain companies that might be considered to be “unethical” by some commentators set the gold standard of governance and corporate responsibility reporting. In this area, those companies are behaving particularly responsibly, going far beyond what is required of them from a regulatory perspective. It is for a company to determine the role responsibility has to play within its own corporate narrative and identity.

Question 3: Are comparable, voluntary metrics on social and environmental aspects desirable? What might be the costs and benefits of this? What role should Government play in determining what these metrics might be and how might we encourage more businesses to adopt them?

It is very desirable for metrics to evolve. Whilst it is often a practical necessity for metrics to be voluntary, with time, it is hoped that a level of standardisation will become accepted, thus removing an area of uncertainty for companies. Some metrics will be universal, but other metrics might need to be applied on an industry by industry basis, recognising that, it is rare for two companies to be totally comparable in all respects.

We have no data which enables us to make any comment on the cost of metrics.

Government can provide support by funding research and skills development in the area of metrics development and reporting and also recognising which metrics industry sectors gravitate towards. However, it is not the role of Government to regulate and to determine which metric any industry sector should apply.

As has already been noted, government can support the adoption of comparable, voluntary metrics

through the three initiatives of:

1. direction setting;
2. removing discriminatory taxation and creating taxation incentive; and
3. sponsorship of awards and accreditation.

Question 4: How might businesses demonstrate that the information they voluntarily capture and present is externally verifiable? What might be the costs and benefits of this?

The best way of demonstrating that information captured is externally verifiable is through a process of external verification and peer group comparison verification, whether carried out by a verification service or in the court of public opinion based on published data.

The Government has much to learn (both positive and negative) from the experience of the last few years in relation to both mandatory GHG reporting and the CRC Energy Efficiency Scheme.

Mandatory GHG Reporting

DEFRA has supported the delivery of mandatory GHG reporting for quoted companies in conjunction with your department's narrative reporting changes, effective 1 October 2013.

Through the consultation process of carbon reporting, there was an acceptance that it was not appropriate to set metrics which must be applied, but that companies should include in their narrative a description of the reporting methodology and an explanation as to why, on a comply or explain basis.

The inclusion of carbon reporting information within a company's published information allows for market commentators to assess comparables. The information itself need not be perfect, but the company must disclose how reliable it is.

CRC Energy Efficiency Scheme

Whilst DECC's original scheme suffered from some fundamental flaws (including the manner of league table performance assessment), which were not effectively addressed through the reform of the scheme, one powerful concept of the CRC Energy Efficiency Scheme was that an annual league table be produced to demonstrate which companies were "good performers" within the scheme in the prior year. The publication of information allows for benchmarking and analysis of it to be carried out by media commentators. A significant drawback was the troublesome requirement to capture an almost perfect body of data rather than, as with mandatory GHG reporting, require companies to disclose what they can and advise how accurate that data is on a comply or explain basis.

We are unable to comment on the costs, but the benefit of verification is to increase the confidence placed by investors and market commentators in the information provided.

Question 5: How might companies best manage their supply chains more effectively? How might Government help with this?

No two companies are the same. All supply chains are different. Accordingly, it is very difficult for us to comment on how companies may generally best manage their supply chains more effectively. The answer must be analysed on a case by case basis.

We have already noted the benefit of Government holding up a lens to and rewarding good performance and, on the basis that corporate responsibility is by its very nature a cooperative concept (to misquote John Donne in this regard “no [company] is an island”), there must be scope for recognition of those companies who work together to deliver effective and responsible supply chains, recognising the role of each other and the improvements that each can make. Co-operation could be a particular category for award in a Government backed award scheme.

Clearly some thought needs to be given as to where any individual supply chain begins and ends. For example, as every company has need for energy, do non-energy intensive companies consider their energy supply part of the supply chain for their products? Some would, some would not. The judgement of each is valid as the company is best placed to assess risk within its business.

A Government comparator may be drawn with the NHS which has historically delivered clear messages that its priority is the delivery of health services and no energy solution which could compromise clinical services could be acceptable to it. Accordingly, to include energy within its supply chain narrative from a corporate responsibility perspective would not be sensible or appropriate because it would then fail to highlight that the good work delivered by the NHS as a responsible “corporate” citizen is delivered in other areas.

Question 6: Should companies be obliged to be more responsible for actions within their supply chain? If yes, how could this be achieved without legislation? What would the costs and benefits be?

Company law (section 172 Companies Act 2006) obliges company directors to give due regard to a number of factors in the discharge of statutory duties, including the company’s employees, suppliers and customers and the long term consequences of any decision.

We do not see any need for further legislation in this regard (indeed, we would counsel against the same as it would undermine a key principle of company law and to do so requires a wider debate). However, we appreciate that a key aspect of corporate responsibility is to encourage companies to disseminate beyond the boardroom decisions that may have previously been protected within the boardroom: this must be delivered with some sensitivity because it is not always appropriate for the reasons and governing themes of corporate decision making to be broadcast beyond the board and key senior managers. Note The Law Commission is about to embark on a review of fiduciary responsibilities in the investment chain as recommended by Professor Kay and further Government consideration should be aligned with that work.

The best way of encouraging such positive action is to highlight and reward best practice.

Question 7: How might Government best support small business to adopt responsible business practices? What particular challenges does Government face in trying to achieve this? How might it overcome such challenges?

As a membership organisation representing the interests of small and mid-size quoted companies, we are particularly concerned that the Government believes that it is larger enterprises and not SMEs which are focused on responsible business behaviours. This is not correct. In an SME, corporate responsibility forms one of the foundations upon which new business is developed, as is emphasised in our Corporate Governance Code 2013 for Small and Mid-Size Quoted Companies.

Government can support small business in adopting and demonstrating the adoption of responsible business practices by:

- providing and funding developmental programmes for the education of directors to assist their understanding of enhanced shareholder value and the central role corporate responsibility has within this;
- carrying out research and thought leadership and supporting equivalent initiatives of others;
- highlighting examples of excellent responsible corporate behaviours; and
- providing fiscal incentives (as already described).

We suspect that, if statistical research were carried out, the findings would demonstrate that small businesses generally behave in a very responsible and attributable manner within their supply chains, with their employees and stakeholders and the communities they work with and exist within, but are not very effective in broadcasting this narrative to the wider market.

We see that the principal challenges in this area lay with SMEs as these businesses are faced with both tight budgetary constraints and, perhaps more importantly, little spare management time to examine business processes in a strategic manner rather than with the Government which is supported by a much greater resource.

Accordingly, the key objective must be for the Government to **support sustainable growth within small businesses in a responsible manner in the earliest stages of a corporate's life**: it is much easier to create the business in this manner rather than having to transition from one mode of behaviour to another.

Question 8: How might Government help SMEs publicise their responsible business behaviour?

Please see our comments already made above. The Government has an opportunity to present inspired leadership in this area through recognition and reward, thought leadership and fiscal incentives.

SMEs will behave in the manner in which they do because it forms a fundamental part of their corporate identity and is vital for them to carry on business and create new growth within their communities. SMEs

need to be encouraged and supported to blend this into their corporate narrative and to highlight what they do.

Question 9: What role does larger business have in supporting smaller business? Is there an imperative for larger businesses to support smaller businesses? How might Government enable this?

Clearly, where there is an integrated supply chain larger, business can be a powerful vector for change and can support SMEs to better tell their good governance narrative.

In addition, larger companies could be supported by the Government to provide mentoring support to smaller businesses to assist them in finding ways in which to improve their responsibility processes and narrative.

Government support can be given through the methods already described.

Question 10: What are the main barriers to businesses contributing more to social outcomes?

Companies are established with the objective of delivering long-term return to investors. Involvement of corporates in delivering social outcomes must be focussed upon this objective.

Corporates are a major contributor to HM Treasury's tax revenues through business taxation and therefore (indirectly) already fund much of the social agenda of any Government. Corporates will involve themselves directly in the delivery of social outcomes where there is a direct impact on shareholder value. Involvement in education, empowerment and skills development are excellent examples of where corporates can positively contribute to improved social outcomes in circumstances which are of direct benefit to the corporate itself.

Question 11: What more could Government do to make it easier for businesses to support social initiatives? How might Government showcase innovative approaches that others might consider adopting?

As has already been noted, the most effective ways in which Government may make it easier for businesses to support social initiatives are through education, support, recognition and the provision of fiscal incentives.

Question 12: How might the relationship between business and society be strengthened? How might Government support this?

Business and society exist in a state of symbiosis: the Government influences both. Particularly in an environment where business is leading the UK economy out of the post-financial crisis recession, it is

important for Government to support leadership and best practice, without creating new and unnecessary regulatory burdens.

The current investment environment is one in which it is vital for Government to seek to align itself with the interests of business so as to deliver new growth. Government must empower the same through focused support rather than an emphasis on either the creation or removal of marginal regulation.

The Government can support responsible corporate behaviour by rewarding good practice, encouraging a renewal of trust and a refreshed social contract between economic players, consumers and the state and also delivering a message that responsible and well governed companies are much more protective of investor and, indeed, stakeholder, value than companies that demonstrate lower standards of corporate responsibility.

Responsible corporate behaviour is an inherent part of a company's mission and identity and the events which led up to the financial crisis have been a very clear demonstration of how destructive irresponsible behaviour has been. A well governed company is more likely to behave in a corporately responsible manner.

In this regard, the forthcoming Law Commission review of fiduciary responsibilities in the investment chain (as recommended by Professor Kay) are very important.

Question 13: Is there any comment you wish to make on UK business and human rights generally?

We have no comments to add on this question.

Question 14: Should corporate responsibility be recognised as a profession?

We see no need for a separate profession to be recognised. Corporate responsibility experts are highly qualified professionals which are generally qualified lawyers or accountants, investor relations experts within major funds, FCA authorised persons at financial intermediaries or academics. Corporate responsibility expertise draws from a broad constituency of skills.

Question 15: What more can Government, business and others do to improve information available to consumers who want to take ethical considerations in to account? Does this differ between sectors?

A sector by sector approach must be followed, but the Government could publish a consumers' guide to ethical accreditation programmes to allow consumers to make a more informed decision on accreditation schemes including, for example, the Carbon Disclosure Project, the Carbon Trust Standard, Rainforest Alliance Accreditation, certified Fair Trade products.

It is noted that such a project would require cooperation across Government departments.

Further comments

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

We would welcome an opportunity of a discussion on this topic, in particular, how Government can deliver meaningful support for the corporate responsibility programmes of SMEs.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply – YES.

Quoted Companies Alliance Corporate Governance Expert Group

Edward Craft (Chairman)	Wedlake Bell LLP
Victoria Barron	Hermes Equity Ownership Services
Edward Beale	Western Selection Plc
Rob Burdett	FIT Remuneration Consultants
Dan Burns	McguireWoods
Anthony Carey	Mazars LLP
Richie Clark	Fox Williams LLP
Louis Cooper	Crowe Clark Whitehill LLP
George Dallas/Eugenia Unanyants-Jackson	F&C Investments
Kate Elsdon	PwC
Nicola Evans/Julie Stanbrook	Hogan Lovells International LLP
David Firth	Penna Consulting PLC
Peter Fitzwilliam	Mission Marketing Group PLC
David Fuller	CLS Holdings PLC
Clive Garston	DAC Beachcroft LLP
Nick Graves	Burges Salmon
Andrew Hobbs	Ernst & Young LLP
Alexandra Hockenhull	Xchanging plc
David Isherwood	BDO LLP
Nick Janmohamed	Speechly Bircham LLP
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Claire Noyce	Hybridan LLP
James Parkes	CMS Cameron McKenna LLP
Anita Skipper	Aviva Investors
Peter Swabey	ICSA
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